Minimum Expectations for NAIDC Financial Analysis

Basic understanding of balance sheets and income statements

What financial information does each statement contain?

- Balance Sheet = financial condition on one given day
  - Assets of the farm (may contain household/personal assets)
    - Current Assets
    - Intermediate Assets
    - Long Term Assets
  - Liabilities
    - Current Liabilities
    - Non-Current Liabilities
  - Owners Equity or Net Worth
    - Very simply: Total Assets – Total Liabilities
- Income Statement = the profitability of the farm for one year
  - Revenues
    - Dairy
    - Non-dairy (other farm revenues)
  - Expenses
    - Dairy-Specific (estimate of dairy-related variable or operating costs)
    - Non-Dairy-Specific (non-dairy variable or operating costs plus fixed costs)
  - Net Farm Profit Before Taxes
    - Very Simply: Gross Revenues – Total Farm Expenses

What are the main (general) uses of each statement for lenders & managers? Or, what information can lenders and farm managers obtain from these statements?

- Balance Sheet
  - Liquidity
  - Solvency
  - * Borrowing capacity based on Equity
- Income Statement
  - Repayment Ability
  - Profitability
  - Financial Efficiency
  - * Borrowing capacity based on cash flow

Basic Ratio Analysis

Calculate the main financial ratios for two years of statements and compare to appropriate benchmarks for regional/national dairies (FinBin, Frazer, etc.)

- At a minimum, include these ratios
  - Liquidity
    - Current Ratio
  - Solvency
    - Debt/Asset or Equity/Asset or Debt/Equity (only one, not all 3)
    - Debt/Cow
  - Repayment Ability
    - Debt Coverage Ratio or Term Debt/EBITDA
  - Profitability
    - Rate of Return on Assets (ROA) or Rate of Return on Equity (ROE)
  - Financial Efficiency
    - Operating Expense/Receipt Ratio

Identify main strengths/weaknesses of the farm's financial condition

Financial Implications of Recommendations

Expected (change in) profits and/or cash flow from each change

*Partial budget format is recommended, but not necessary

Analysis students are NOT expected to do:
These are above & beyond expectations (at the moment)

- Cash to accrual adjustments
- Investment analysis
  - Net Present Value
  - Internal Rate of Return
  - Equal Annual Annuities
  - Payback Period
- Loan Amortization
  - They won't have the terms (APR, term, original balance) on the existing loans
- Breakeven analysis
- Sensitivity analysis (changes in key assumptions or key factors)
  - Example: Impact on profit of a 10% increase in feed prices